

WEBBERVILLE COMMUNITY SCHOOLS
Webberville, Michigan

FINANCIAL STATEMENTS

June 30, 2006

Webberville Community Schools

Webberville, Michigan

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June 30, 2006

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Webberville Community Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Webberville Community Schools
Webberville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Webberville Community Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Webberville Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Webberville Community Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2006 on our consideration of Webberville Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The administration's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Webberville Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 24, 2006

This section of Webberville Community Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Webberville Community Schools, a K-12 school district located in Ingham County, Michigan, reports their financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Webberville Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006 with some limited comparisons with the prior year where noted.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Webberville Community Schools' financial status. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 2006 Energy Bond (Capital) Projects Fund, and the 2004 Bond (Capital) Projects Fund individually. The Special Revenue Funds, Debt Service Funds, and remaining capital projects funds are presented as nonmajor governmental funds. The remaining statement, the Statement of Fiduciary Net Assets present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The district-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the district-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Financial Activities:

As a result of near zero growth in the state per pupil foundation allowance, which comprises over 85% of the District's operating revenue, the District has experienced a decline in the fund balance of the General Fund. Despite the stagnant revenues, the District concluded the 2005-06 fiscal year with a fund equity of \$102,244 - approximately 2% of the operating budget. To accomplish this, over the past few years, the District has:

- Reduced the number of instruction days, thereby reducing overhead costs for transportation and support staff
- Reduced staffing at all levels throughout the District
- Reduced supply costs
- Deferred the purchase of equipment
- Outsourced business services
- Outsourced food service operations

Other District financial activities include:

- Completion of construction projects funded by the issuance of bonds in 2002 and substantial completion of the project funded by the 2004 bonds
- Launching new energy conservation projects through the sale of 2006 Energy Bonds

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2005 and 2006.

Condensed Statement of Net Assets
as of June 30, 2005 and 2006

	Governmental Activities <u>2005</u>	Governmental Activities <u>2006</u>
Assets		
Current and Other Assets	\$ 9,238,116	\$ 4,060,553
Capital Assets	<u>9,192,659</u>	<u>16,372,005</u>
Total Assets	18,430,775	20,432,558
Liabilities		
Current Liabilities	2,785,115	2,937,175
Noncurrent Liabilities	<u>18,264,791</u>	<u>19,616,196</u>
Total Liabilities	21,049,906	22,553,371
Net Assets		
Invested in capital assets, net of related debt	(2,492,356)	(1,949,694)
Restricted	6,836,715	1,695,475
Unrestricted	<u>(6,963,490)</u>	<u>(1,866,594)</u>
Total Net Assets	<u>\$(2,619,131)</u>	<u>\$(2,120,813)</u>

Analysis of Financial Position:

As detailed above, the District shows a negative total net asset value of \$2,120,813 for the fiscal year ended June 30, 2006. This statement has been affected by significant debt which was incurred by the District in 2002, 2004, and 2006 for the purpose of:

- Construction projects to renovate worn out facilities and meet current instructional demands as well as the needs of the students. Voters approved the sale of bonds for these purposes in 2002.
- Site improvements to athletic fields, construction of a community recreation facility, and construction of an agricultural building. Voters approved the sale of bonds for these purposes in 2004.
- Energy conservation projects to update various areas throughout the District to make them more energy efficient. Sale of these bonds for energy conservation purposes was in 2006.

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Results of Operations:

For the fiscal year ended June 30, 2005 and 2006, the district-wide results of operations were:

Condensed Statement of Activities Year Ended June 30, 2005 and 2006

	Governmental Activities 2005	Governmental Activities 2006
Revenues:		
Program Revenues		
Charges for Service	\$ 223,553	\$ 261,422
Operating and Capital Grants	527,638	473,592
General Revenues		
Property Taxes	1,492,447	1,539,295
State School Aid-unrestricted	3,519,387	3,761,161
Other	<u>535,813</u>	<u>485,400</u>
Total Revenues	6,298,838	6,520,870
Functions/Program Expenses:		
Instruction	2,893,681	2,944,508
Supporting services	2,811,770	2,032,738
Community services	27,076	119,462
Food service	196,279	192,950
Athletics	202,503	196,919
Interest on long-term debt	780,788	879,997
Other transactions	75,557	55,901
Unallocated depreciation	<u>381,937</u>	<u>462,555</u>
Total Expenses	<u>7,369,591</u>	<u>6,885,030</u>
(Decrease) in Net Assets	<u>\$ (1,070,753)</u>	<u>\$ (364,160)</u>

Analysis and Results of Results of Operations:

During fiscal year ended June 30, 2006, the District's net assets increased by \$498,318 net after a \$862,478 prior period adjustment was taken into consideration to correct an understatement of prior year capital assets. Several factors which helped cause the reduction are discussed in the following sections.

A. Governmental Fund Operating Results

The District's expenditures from governmental fund operations exceeded revenues by \$5,252,337 for the fiscal year ended June 30, 2006, mainly due to the capital outlay purchases related to the 2004 and 2006 bond projects. A majority of the assets were capitalized on the district-wide financial statements.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-2006, district assets depreciated in the amount of \$462,555, and had total capital outlay for the year of \$6,779,423 causing an increase in net district assets.

C. Long-Term Debt Activities

The District increased its long-term debt obligation during 2005-2006 by selling bonds in the amount of \$1,525,000 for energy conservation projects. Additional debt of \$401,236 in the form of principal and interest accrued on outstanding debt was incurred by the District during the fiscal year through the State of Michigan School Bond Loan Fund. Decreases in long-term debt were realized by making principal payments in the amount of \$507,803. Additionally, accrued severance pay increased by \$5,170. As a result of these activities, net district long-term debt liabilities increased by \$1,423,603.

D. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Webberville Community Schools such as: Salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodial/Maintenance staff, Librarian, Counselor, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's revenues from General Fund operations fell short of expenditures by \$66,775 for the fiscal year ended June 30, 2006. The General Fund as of June 30, 2006, has a fund balance of \$102,244 or approximately 2.0% of expenditures for the 2005-2006 fiscal year. The School District made budget reductions prior to the 2005-2006 fiscal year and will need to make further reductions for 2006-07 unless funding from the State of Michigan improves.

E. Debt Service Fund Operations

The Debt Service Funds consist of five separate debt funds as follows: 1998 Debt, 2002 Debt, 2003 Debt, 2004 Debt, and Durant Debt. The Debt Service Funds are set up to collect taxes and state revenues and pay annual debt payments. At June 30, 2006, the Debt Service Funds had \$103,004 in fund equity available for future bond payments.

The School District levies taxes to make debt payment obligations. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Loan Revolving Fund, which is the new program for school's to borrow from that succeeds the Michigan School Bond Loan Fund for future loans. Any funds borrowed from the Michigan School Loan Revolving Fund will be paid back toward the end of the bond obligations. In the fiscal year ended June 30, 2006, the School District borrowed \$401,236 (principal and accrued interest) and the School District has a total obligation of \$996,370 to pay back to the Michigan School Bond Loan Fund and the Michigan School Loan Revolving Fund, including interest. The District also had Durant resolution bonds outstanding at June 30, 2006, which totaled \$47,263. The District also has two (2) notes payable outstanding for a total of \$45,817 which is paid for out of the sinking fund and \$330,334 in severance pay outstanding at June 30, 2006.

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance <u>June 30, 2005</u>	Principal Issuances	Principal Payments	Principal Balance <u>June 30, 2006</u>
1998 Bonds	\$ 360,000	\$ -	\$ 40,000	\$ 320,000
2002 Bonds	7,585,000	-	135,000	7,450,000
2003 Bonds	1,355,000	-	235,000	1,120,000
2004 Bonds	8,500,000	-	80,000	8,420,000
2006 Bonds	-	1,525,000	-	1,525,000
Total long-term bond obligations	<u>\$ 17,800,000</u>	<u>\$ 1,525,000</u>	<u>\$ 490,000</u>	<u>\$ 18,835,000</u>

F. School Service Funds

The Webberville Community Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2004-2005 the Food Service program was out-sourced to a private company. In 2005-2006, outsourcing was expanded to include all personnel. For the year ending June 30, 2006, the Food Service Fund had revenues of \$193,125 and expenditures of \$193,125. The Food Service Fund must maintain a balanced budget; therefore the District contributed \$13,780 from the General Fund to balance the fund. The Food Service Fund had a fund balance of \$633 as of June 30, 2006.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, transportation, and miscellaneous. Facility costs are accounted for in the General Fund. In 2005-2006 the Athletics Fund had revenues of \$196,919 and expenditures of \$196,919. The Athletics Fund generated \$22,171 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. To balance the Athletics Fund budget the District had to contribute \$174,748 from the General Fund. The Athletics Fund had a fund balance of \$2,278 as of June 30, 2006.

G. Net Investment in Capital Assets

The District's net investment in capital assets increased by \$6,316,868 during the fiscal year. This can be summarized as follows:

	Restated Balance <u>June 30, 2005</u>	Net Change	Balance <u>June 30, 2006</u>
Capital assets	\$ 13,034,425	\$ 6,779,423	\$ 19,813,848
Less: accumulated depreciation	(2,979,288)	(462,555)	(3,441,843)
Net investment in capital outlay	<u>\$ 10,055,137</u>	<u>\$ 6,316,868</u>	<u>\$ 16,372,005</u>

The increase in capital assets is due to:

- Passage of a 2004 Bond Issue in which voters approved an \$8,500,000 general obligation bond issue. A new community center and site improvements were substantially completed in the current year using the proceeds from the sale of these bonds.
- Issuance in the current year of \$1,525,000 in Energy Conservation Bonds to defray capital outlay costs for energy conservation projects throughout the District.

IMPORTANT ECONOMIC FACTORS**A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment - Blended at 25 percent of prior year's winter count and 75 percent of current year's fall count.
- c. The District's non-homestead property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Webberville Community Schools foundation allowance was \$6,875 per student for the 2005-2006 school year. This foundation amount was increased from 2004-05 by \$175 per pupil. This was the first increase since the 2001-02 school year.

C. Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 640 students. The District's enrollment increased moderately from the prior school year's student count. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2005-2006	640	+4
2004-2005	636	+21
2003-2004	615	-28
2002-2003	643	-26
2001-2002	669	-31

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18.0000 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2005-2006 fiscal year was \$556,747.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2005-2006 the District's debt millage levy was 7.45 mills, which generated revenue of \$787,271.

F. Sinking Fund Property Taxes

In 2004, Webberville Community Schools' voters authorized a 1.0 Sinking Fund Millage for the purpose of purchasing real estate sites, construction or repair of school buildings and other lawful purposes. The amount levied is based on the taxable valuation of all properties: homestead and non-homestead.

For 2005-06 the District was required to rollback the Sinking Fund millage to .9871 as a result of the Headlee amendment requirements. The resulting millage generated revenue of \$104,205 in tax revenue.

Webberville Community Schools

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2006

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Revenues and Other Sources, Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	\$5,080,425	\$5,166,971	\$5,202,930	\$122,505	\$35,959
2004-2005	\$4,634,287	\$4,884,980	\$4,853,276	\$218,989	(\$31,704)

General Fund Expenditures and Other Uses Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	\$5,034,139	\$5,286,567	\$5,269,705	(\$235,566)	\$16,862
2004-2005	\$4,887,444	\$5,109,136	\$5,055,263	(\$167,819)	\$53,873

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Webberville Community Schools amends its budget periodically during the school year. The June 2006 budget amendment was the final budget for the fiscal year.

Revenue Change from Original to Final Budget:

Total Revenues Original Budget	\$ 5,080,425
Total Revenues Final Budget	<u>5,166,971</u>
Increase in Budget Revenues	<u>\$ 86,546</u>

The District's final actual general fund revenues were more than the final budget by \$35,959 - a variance of .7%.

The Final revenue budget reflects the following changes from the Original Budget.

- Actual versus projects student enrollment (state foundation revenue)
- Revised county special education allocation

Expenditures Change from Original to Final Budget:

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 5,034,139
Total Expenditures Final Budget	<u>5,286,567</u>
Increase in Budgeted Expenditures	<u>\$ 252,428</u>

The District's actual expenditures were less than the final budget by \$16,862 - a variance of .3 percent.

The significant changes in expenditure budgets for the year include:

- Actual versus projected staffing
- Actual versus projected increases in benefit costs

Factors Bearing on the District's Future

The end of fiscal year 2006 marks the expiration on the current three-year teachers' contract. The economic packages (salaries and fringe benefits) contain in the current contract provides for a cap on the increase of the cost of health insurance to the District. The intent of the school board is to maintain the insurance cap and share the burden of the increase costs associated with health care.

The District continues to receive strong support local support for continued improvement of the District's facilities and infrastructure. Voters approved a 7.85 million bond issue in September of 2002, and another in 8.5 million in June of 2004. In addition, the voters have approved a ten-year 1 mill levy for a sinking fund that began in the 2004-2005 school year. This sinking fund will be used to improve and keep existing facilities and grounds in good repair.

As of August 2006 the District has completed the 2004 Bond projects on time and within budget. The Spartan Center was the main focus of this bond project. The Spartan Center provides students and community members with a holistic wellness center. The Spartan Center also provides a healthcare facility, physical therapy, athletic training area which includes a hydrotherapy room, fitness center, indoor track, two indoor basketball and volleyball courts, an indoor tennis court, four family locker rooms, athletic and PE locker rooms, cheerleading/dance studio, and a wrestling practice room. Also included are the Spartan Café, a Spartan Wear store, and laundry room. The Spartan Center provides a community classroom for service organizations meetings, school board meetings, and to provide health education classes for students, parents, and community members. The Spartan Center was designed to assist the District to better serve our students and community members through wellness activities and family activities.

The 2004 Bond also provided for improvements to the District's site and to help build a barn and greenhouse for the Ingham Intermediate School District's Agricultural/Natural Science program. Webberville Community Schools host this program in partnership with Ingham Intermediate School District. The site work included new parking areas, drives, and needed improvements to the football/track facilities. New lighting, bleachers, and a press box were also installed as part of this project.

In June 2006 the District sold energy bonds to repair roofs, add energy efficient windows, and add insulation and brick to exposed block walls. In all three areas the District will be significantly increasing the buildings "R" value. Sinking fund dollars will be used to repay these bonds. These three projects will be completed by the first of September, 2006.

Student enrollment had been in an 11.5 year decline. In February of 2004 the District had a fourth Friday count of 607 students. However, since that time, the District's enrollment has been increasing. Last year the District's enrollment hit 650 students. In 2007 the District is anticipating an enrollment of 670 to 675 students. This would represent an increase of approximately 68 students in the last two and half years. The District enrollment is increasing due to the improvement of district facilities and grounds, improvement in academic standards, and due to the new opportunities being created for students and community members. Many families are looking for a smaller environment where the school provides big opportunities in a safe and more personalized environment. In addition to the facility improvements already mentioned, the District has added new programs and course offerings to help meet the needs of all students. New programs include: technology education, computer graphics, multimedia, computer aided design (CAD), Spanish for elementary students, K-4 orchestra, increased fine arts programs, AP classes, a Regional Agriscience program in partnership with Ingham Intermediate School District, an ECCD program for preschool children with learning disabilities, and an Alternative Education Program for grades 7 - 12.

With all the changes and improvements to the school, we are seeing more interest by developers who want to build housing developments in Webberville. We have three new housing developments underway. These three developments will provide over 200 new homes in Webberville. Given our convenient location to Lansing, Flint, Saginaw, Detroit, Jackson, and Ann Arbor, our location is ideal as a bedroom community.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office, Webberville Community Schools, 309 E. Grand River, Webberville, Michigan 48892.

BASIC FINANCIAL STATEMENTS

Webberville Community Schools

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,120,856
Investments	24,836
Receivables	41,500
Inventories	12,326
Due from other governmental units	846,651
Prepays	<u>14,384</u>
Total current assets	4,060,553
Noncurrent assets	
Capital assets not being depreciated	2,483,757
Capital assets, net of accumulated depreciation	<u>13,888,248</u>
Total noncurrent assets	<u>16,372,005</u>
TOTAL ASSETS	20,432,558
LIABILITIES	
Current liabilities	
Accounts payable	858,944
Accrued payroll	282,731
Accrued liabilities	201,361
Deferred revenue	13,883
Short-term debt payable	800,000
Current portion of accrued interest payable	135,222
Current portion of compensated absences	66,067
Current portion of long-term debt	<u>578,967</u>
Total current liabilities	2,937,175
Noncurrent liabilities	
Noncurrent portion of long-term debt	19,345,483
Noncurrent portion of accrued interest payable	6,446
Noncurrent portion of compensated absences	<u>264,267</u>
Total noncurrent liabilities	<u>19,616,196</u>
TOTAL LIABILITIES	<u>22,553,371</u>
NET ASSETS	
Invested in capital assets, net of related debt	(1,949,694)
Restricted for bond projects	1,602,751
Restricted for sinking fund activity	92,724
Unrestricted	<u>(1,866,594)</u>
TOTAL NET DEFICIT	<u><u>\$ (2,120,813)</u></u>

See accompanying notes to financial statements.

Webberville Community Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Governmental Activities	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Capital Grants	
Functions/Programs					
Instruction	\$ 2,944,508	\$ 31,311	\$ 383,075	\$ -	\$ (2,530,122)
Supporting services	2,032,738	42,087	5,633	13,626	(1,971,392)
Food service	192,950	106,507	71,258	-	(15,185)
Athletics	196,919	19,552	-	-	(177,367)
Community services	119,462	61,965	-	-	(57,497)
Payments to other districts	55,901	-	-	-	(55,901)
Interest on long-term debt	879,997	-	-	-	(879,997)
Unallocated depreciation	462,555	-	-	-	(462,555)
TOTAL	\$ 6,885,030	\$ 261,422	\$ 459,966	\$ 13,626	(6,150,016)
General revenues					
Property taxes					1,539,295
State school aid - unrestricted					3,761,161
Special Education county allocation					300,386
Investment earnings					157,631
Miscellaneous					27,383
TOTAL GENERAL REVENUES					5,785,856
CHANGE IN NET ASSETS					(364,160)
Net deficit, beginning of the year					(2,619,131)
Prior period adjustment					862,478
Net deficit, end of the year					<u>\$ (2,120,813)</u>

See accompanying notes to financial statements.

Webberville Community Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	2004 Bond Projects	2006 Energy Bond Projects
ASSETS			
Cash and cash equivalents	\$ 577,300	\$ 931,558	\$ 1,382,318
Investments	-	24,836	-
Receivables	2,806	-	170
Inventories	7,609	-	-
Due from other funds	42,233	-	-
Due from other governmental units	845,361	-	-
Prepays	11,602	-	-
TOTAL ASSETS	\$ 1,486,911	\$ 956,394	\$ 1,382,488
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 92,383	\$ 448,372	\$ 287,759
Accrued payroll	282,731	-	-
Other accrued liabilities	197,880	-	-
Due to other funds	625	-	-
Deferred revenue	11,048	-	-
Short-term debt payable	800,000	-	-
TOTAL LIABILITIES	1,384,667	448,372	287,759
FUND BALANCES			
Reserved for			
Inventories and prepaids	19,211	-	-
Debt service	-	-	-
Unreserved			
Undesignated, reported in			
General fund	83,033	-	-
Special revenue funds	-	-	-
Capital projects funds	-	508,022	1,094,729
TOTAL FUND BALANCES	102,244	508,022	1,094,729
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,486,911	\$ 956,394	\$ 1,382,488

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 229,680	\$ 3,120,856
-	24,836
38,524	41,500
4,717	12,326
625	42,858
1,290	846,651
2,782	14,384
<u>\$ 277,618</u>	<u>\$ 4,103,411</u>

\$ 30,430	\$ 858,944
-	282,731
3,481	201,361
42,233	42,858
2,835	13,883
-	800,000

78,979	2,199,777
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2,076	21,287
103,004	103,004

-	83,033
2,278	2,278
91,281	1,694,032

<u>198,639</u>	<u>1,903,634</u>
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<u>\$ 277,618</u>	<u>\$ 4,103,411</u>
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Webberville Community Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 1,903,634

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 19,813,848	
Accumulated depreciation is	<u>(3,441,843)</u>	
		16,372,005

Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as liabilities in
the funds. Long-term liabilities at year-end consist of:

Bonds, loans, and notes payable	\$ (19,924,450)	
Accrued interest payable	(141,668)	
Compensated absences	<u>(330,334)</u>	
		<u>(20,396,452)</u>

Net assets of governmental activities \$ (2,120,813)

See accompanying notes to financial statements.

Webberville Community Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	2004 Bond Projects	2006 Energy Bond Projects
REVENUES			
Local sources	\$ 704,949	\$ 141,106	\$ 2,450
State sources	3,966,935	-	-
Federal sources	130,074	-	-
OTHER FINANCING SOURCES			
Other transactions	100,586	-	-
County special education allocation	300,386	-	-
Transfers in	-	-	-
Bond and loan proceeds	-	-	1,525,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	5,202,930	141,106	1,527,450
EXPENDITURES			
Current			
Instruction	2,939,338	-	-
Supporting services	2,032,738	-	-
Food service	-	-	-
Athletics	-	-	-
Community services	53,200	-	-
Debt service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Capital outlay	-	6,454,086	377,280
OTHER FINANCING USES			
Bond issuance costs	-	-	55,441
Payments to other districts	55,901	-	-
Transfers out	188,528	-	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	5,269,705	6,454,086	432,721
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(66,775)	(6,312,980)	1,094,729
Fund balances, beginning of year	169,019	6,821,002	-
Fund balances, end of year	<u>\$ 102,244</u>	<u>\$ 508,022</u>	<u>\$ 1,094,729</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,097,505	\$ 1,946,010
12,684	3,979,619
64,195	194,269
-	100,586
-	300,386
188,886	188,886
367,245	1,892,245
1,730,515	8,602,001
-	2,939,338
-	2,032,738
192,950	192,950
196,919	196,919
-	53,200
507,803	507,803
785,477	785,477
14,319	6,845,685
-	55,441
-	55,901
358	188,886
1,697,826	13,854,338
32,689	(5,252,337)
165,950	7,155,971
<u>\$ 198,639</u>	<u>\$ 1,903,634</u>

Webberville Community Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds **\$ (5,252,337)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 6,779,423	
Depreciation expense	<u>(462,555)</u>	
Excess of capital outlay over depreciation expense		6,316,868

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond and loan principal retirement	\$ 507,803	
Bond and loan proceeds (including SBLF interest)	<u>(1,926,236)</u>	
		(1,418,433)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	\$ (5,088)	
(Increase) in accrued compensated absences	<u>(5,170)</u>	
		<u>(10,258)</u>

Change in net assets of governmental activities **\$ (364,160)**

See accompanying notes to financial statements.

Webberville Community Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Agency Funds
ASSETS	
Cash	\$ 46,876
Investments	<u>18,000</u>
Total Assets	<u>\$ 64,876</u>
LIABILITIES	
Due to student groups - Elementary	\$ 10,097
Due to student groups - High School	<u>54,779</u>
	<u>\$ 64,876</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Webberville Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Webberville Community Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included. Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. Separate columns are shown for major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

- b. Energy Bond Fund - The Energy Bond Fund is used to account for financial resources used for construction and capital outlay related to the 2006 Energy Bonds.
- c. 2004 Capital Projects - 2004 Capital Projects Fund is used to account for financial resources used for construction and capital outlay related to the 2004 School Building and Site Bonds.

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. Formal budgetary integration is employed as a management control device during the year for General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Supplemental appropriations were made during the year with the last one approved June 29, 2006.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, commercial paper, money market accounts and pooled investment funds with an original maturity of 90 days or less. Cash equivalents are recorded at market value.

Investments consist of certificates of deposit and U.S. government bonds with an original maturity of greater than 90 days. Investments are recorded at market value.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2006 to be paid in July and August 2006. Of the total amount of \$846,651 due from other governmental units, \$717,403 consists of State Aid and the remaining \$129,248 consists of Federal and State grants due from other governments.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Inventories

Inventories are stated at cost on a first in/first out basis. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

10. Capital Assets

Capital assets include land, buildings and additions, equipment, and construction in progress and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$2,500 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings, improvements, and additions	20-30 years
Equipment and furniture	5 - 20 years

The District has no assets that would be classified as infrastructure assets.

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2006, and anticipated State Aid is expected to be sufficient to cover this commitment.

13. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003 through May 15, 2005 is shown as a noncurrent liability due to the State of Michigan deferring the payments during this time period until May 15, 2009.

Webberville Community Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$18 per \$1,000 of taxable valuation on nonhomestead property for general governmental services, \$7.45 for debt service, and \$0.99 for a site and facilities sinking fund per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District.

16. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in February 2005 and September 2005 and. The average calculation was weighted 25% for the February 2005 count and 75% for the September 2005 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

17. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year have been reported as deferred revenue.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. County Special Education Revenue Allocation

The millage was collected by Ingham Intermediate School District (IISD) and the payments to the District were based on the most recent IISD budget at the time of allocation of excess revenues, after all IISD costs had been reimbursed. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at IISD, of the District compared to the total countywide enrollment. The K-12 enrollment for the District is defined as the blended official count for the State foundation grant.

19. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers.

20. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds.

21. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Webberville Community Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$811,366 and the bank balance was \$1,415,684, of which \$247,582 was covered by federal depository insurance. The balance of \$1,168,102 was uninsured and uncollateralized. The District had \$811 of imprest cash on hand.

Investments

As of June 30, 2006, the District had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Insured or registered for which the securities are held by the District's name			
U.S. Agency Bonds - FREDDIE MAC	\$ 24,836	\$ 24,836	1,068 days
Commercial Paper Investments	1,449,326	1,449,326	13 days
Uncategorized pooled funds			
Governmental Funds - Fifth Third	<u>924,229</u>	<u>924,229</u>	39 days
	<u>\$ 2,398,391</u>	<u>\$ 2,398,391</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the investments in the Bryant Park Funding commercial paper were rated AAA by Standard and Poors and Aaa by Moody's. Fifth Third's fund was rated AAAM by Standard and Poor's and Aaa by Moody's. The U.S. Agency Bonds are all rated AAA by Standard and Poor's.

Interest rate risk

The District has a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District will assess and control this risk through the use of: segmented time distribution, specific identification, weighted average maturity, duration, and simulation model. These methods may be implemented as defined by GASB. The Board may apply different methods to different investments.

Webberville Community Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Concentration of credit risk

The District has a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Investments in securities guaranteed by the U.S. Treasury may be purchased in any dollar amount up to 100% of available reserves. Investment institutions will be screened for eligibility under the following requirements: qualify under SEC rule 15C3-1, capital of no less than \$10,000,000, registered as a dealer under SEC Act of 1939, member NASD, registered in Michigan, institution engagement in similar business for a minimum of five (5) years.

As of June 30, 2006, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,120,856	\$ 46,876	\$ 3,167,732
Investments	<u>24,836</u>	<u>18,000</u>	<u>42,836</u>
	<u>\$ 3,145,692</u>	<u>\$ 64,876</u>	<u>\$ 3,210,568</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Restated Balance July 1, 2005</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2006</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 80,000	\$ -	\$ -	\$ 80,000
Construction in progress	<u>1,732,303</u>	<u>671,454</u>	<u>-</u>	<u>2,403,757</u>
Subtotal	1,812,303	671,454	-0-	2,483,757
Capital assets being depreciated				
Buildings and additions	10,202,942	6,075,426	-	16,278,368
Equipment, furniture, and other assets	<u>1,019,180</u>	<u>32,543</u>	<u>-</u>	<u>1,051,723</u>
Subtotal	11,222,122	6,107,969	-0-	17,330,091

Webberville Community Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE C: CAPITAL ASSETS - CONTINUED

	Restated Balance July 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2006
Less accumulated depreciation for:				
Buildings and additions	\$(2,543,332)	\$(380,539)	\$ -	\$(2,923,871)
Equipment, furniture, and other assets	(435,956)	(82,016)	-	(517,972)
Subtotal	(2,979,288)	(462,555)	-0-	(3,441,843)
Net capital assets being depreciated	8,242,834	5,645,414	-0-	13,888,248
Capital assets, net	<u>\$10,055,137</u>	<u>\$ 6,316,868</u>	<u>\$ -0-</u>	<u>\$16,372,005</u>

Total depreciation expense of \$462,555 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
Note Payable - Leonard	\$ 15,946	\$ -	\$ 7,675	\$ 8,271	\$ 8,271
Note Payable - Schmidt	43,799	-	6,253	37,546	6,638
1998 School Building and Site Bonds	360,000	-	40,000	320,000	40,000
1998 Durant Resolution Bonds	51,138	-	3,875	47,263	4,058
2002 School Building and Site Bonds	7,585,000	-	135,000	7,450,000	145,000
2003 Refunding Bonds	1,355,000	-	235,000	1,120,000	235,000
2004 School Building and Site Bonds	8,500,000	-	80,000	8,420,000	100,000
2006 Energy Bonds	-	1,525,000	-	1,525,000	40,000
Michigan School Bond Loans -					
Principal and interest	595,134	401,236	-	996,370	-
Severance Pay	325,164	5,170	-	330,334	66,067
	<u>\$18,831,181</u>	<u>\$ 1,931,406</u>	<u>\$ 507,803</u>	<u>\$20,254,784</u>	<u>\$ 645,034</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$635,000 1998 School Building and Site Bonds dated August 1, 1998, due in annual installments of \$40,000 through May 1, 2014, with interest ranging from 4.45 to 4.70 percent, payable semi-annually.

\$ 320,000

\$7,835,000 2002 School Building and Site Bonds dated October 21, 2002, due in annual installments ranging from \$145,000 to \$445,000 through May 1, 2032, with interest ranging from 4.00 to 5.00 percent, payable semi-annually.

7,450,000

Webberville Community Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

General Obligation Bonds - continued

\$1,850,000 2003 Refunding Bonds dated March 24, 2003, due in annual installments ranging from \$210,000 to \$235,000 through May 1, 2011, with interest ranging from 2.375 to 3.50 percent, payable semi-annually. \$ 1,120,000

\$8,500,000 2004 School Building and Site Bonds dated July 29, 2004, due in annual installments ranging from \$100,000 to \$525,000 through May 1, 2030, with interest ranging from 2.75 to 4.90 percent, payable semi-annually. 8,420,000

\$1,525,000 2006 Energy Bonds dated June 8, 2006, due in annual installments ranging from \$40,000 to \$110,000 through May 1, 2026, with interest ranging from 3.90 to 4.25 percent, payable semi-annually. 1,525,000

\$18,835,000

Resolution Bonds

\$80,045 1998 Durant Resolution Bonds dated November 24, 1998, due in annual installments ranging from \$4,058 to \$18,911 through May 15, 2013, with interest of 4.76 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. \$ 47,263

Notes Payable

\$89,456 Schmidt Note Payable dated May 23, 1995, due in monthly installments ranging from \$538 to \$722 through June 1, 2011, with interest of 6.00 percent, payable monthly. \$ 37,546

\$68,000 Leonard Note Payable dated May 31, 1995, due in monthly installments ranging from \$666 to \$714 through June 1, 2007, with interest of 7.50 percent, payable monthly. 8,271

\$ 45,817

Michigan School Bond Loans

The School District has borrowed on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 3.125 to 4.685 percent.

The School District has borrowed \$367,245 in principal during this fiscal year. The balances at June 30, 2006, are as follows:

Loan balance	\$ 912,211
Interest balance	<u>84,159</u>
	<u>\$ 996,370</u>

Webberville Community Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

Advance Refunding - Prior

On March 13, 2003 the District defeased the portion of the 1993 Refunding Bonds, which are due and payable May 1, 2004 through May 1, 2011. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest obligations. The District issued 2003 Refunding Bonds in the amount of \$1,850,000 to fund escrow amounts and pay the cost of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2007 through May 1, 2011 for 1993 Refunding Bonds in the amount of \$1,125,000 are considered defeased.

Severance Pay - In recognition of services to the District, a severance payment is made to eligible employees according to their respective employment contracts.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2006 for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2006, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 273,059	\$ 33,800	\$ 306,859
Payroll taxes	<u>20,889</u>	<u>2,586</u>	<u>23,475</u>
	<u>\$ 293,948</u>	<u>\$ 36,386</u>	<u>\$ 330,334</u>

The annual requirement to pay the debt principal and interest outstanding for the Long-Term Debt is as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 4,058	\$ 1,562	\$ 560,000	\$ 820,712	\$ 14,909	\$ 2,412
2008	4,252	1,369	580,000	809,636	7,047	1,663
2009	18,911	7,615	610,000	790,166	7,483	1,228
2010	4,667	954	640,000	768,840	7,944	767
2011	4,889	732	670,000	745,220	8,434	276
2012-2016	10,486	754	2,935,000	3,216,948	-	-
2017-2021	-	-	3,755,000	2,698,562	-	-
2022-2026	-	-	4,515,000	1,783,523	-	-
2027-2031	-	-	4,125,000	677,337	-	-
2032	-	-	<u>445,000</u>	<u>22,250</u>	-	-
	<u>\$ 47,263</u>	<u>\$ 12,986</u>	<u>\$ 18,835,000</u>	<u>\$ 12,333,194</u>	<u>\$ 45,817</u>	<u>\$ 6,346</u>

Webberville Community Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006 are as follows:

Due to General Fund from:	
Nonmajor governmental funds	\$ <u>42,233</u>
Due to nonmajor governmental funds from:	
General Fund	\$ <u>625</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	\$ 188,528
Nonmajor Funds	<u>358</u>
	<u>\$ 188,886</u>

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006 was \$2,992,538 of which \$2,308,503 was for members who have elected the MIP option; the District's total payroll was \$3,071,048.

Webberville Community Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2005 to September 30, 2005, the District is required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006 the District is required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006 and the previous two (2) years are as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2006	\$ 89,516	\$ 478,656	\$ 568,172
2005	83,831	424,414	508,245
2004	88,788	398,946	487,734

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2006	4.0%	16.0%
2005	4.0	14.5
2004	4.0	13.0

Webberville Community Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE H: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of June 30, 2006:

Governmental Activities	
General Fund	
Reserved for inventories and prepaids	\$ 19,211
Nonmajor governmental funds	
Reserved for inventories and prepaids	\$ 2,076
Reserved for debt service	103,004
	\$ 105,080

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the District's budgeted expenditures in the General Fund has been adopted and shown at the functional classification level.

During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Supporting Services			
Administration	\$ 850,900	\$ 863,941	\$ 13,041
Operation and maintenance	615,597	630,999	15,402
Other Financing Uses			
Transfers to other funds	179,258	188,528	9,270

NOTE J: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, builders risk, crime, inland marine, employee dishonesty, auto, boiler and machinery, liability, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE K: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff an agreed upon amount for past underfunding of special education. Webberville Community Schools, a nonplaintiff District, was awarded \$160,090 in the settlement. These funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 24, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments on these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE L: BONDED CONSTRUCTION AND SINKING FUNDS

The various Capital Project Funds of the District include the capital project activities funded by local millage for a bond sinking fund (Site and Facilities Sinking Capital Projects Fund), bond issues (2002 Bond Projects, 2004 Bond Projects, and Energy Bond Projects), and other miscellaneous local revenues in all three of these funds. For the expenditures recorded within the Site and Facilities Sinking Capital Projects Fund, the District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code and the Michigan Department of Treasury Letter No. 01-95.

These four (4) Capital Project Funds of the District include the capital projects activities funded in part by the \$7,835,000 2002 School Building and Site General Obligation Bonds dated October 21, 2002, the \$8,500,000 2004 School Building and Site General Obligation Bonds dated July 29, 2004, and the \$1,525,000 2006 Energy Bonds dated June 8, 2006. The remaining funding for the activities recorded within these Capital Project Funds are funded by local revenues from local millage for a bond sinking fund and other local revenue such as interest, general fund transfers, etc. For these projects recorded within the Capital Project Funds, the District has, based on our testing of a sample of transactions from the inception of these projects, complied with the applicable provisions of Sections 1351 (a) and 1212 of the Revised School Code, and the Michigan Department of Treasury Letter 01-95, in the current year and all applicable prior years.

The Capital Projects Funds include capital project activities funded in part with the above-mentioned bonds issued and sinking fund amounts levied after May 1, 1994. The following is a summary of the revenue and expenditures in the Capital Projects Funds from the inception of each fund as it relates to these bond issues through the current fiscal year. These amounts relate to cumulative project-to-date revenues/expenditures through the period ended June 30, 2006.

	<u>2006 Energy Bonds</u>	<u>Sinking Fund</u>	<u>2002 Bond Projects</u>	<u>2004 Bond Projects</u>	<u>Total</u>
Revenues	<u>\$ 1,527,450</u>	<u>\$ 218,831</u>	<u>\$ 8,025,861</u>	<u>\$ 8,797,545</u>	<u>\$18,569,687</u>
Expenditures	<u>\$ 432,721</u>	<u>\$ 126,107</u>	<u>\$ 8,025,861</u>	<u>\$ 8,289,523</u>	<u>\$16,874,212</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE L: BONDED CONSTRUCTION AND SINKING FUNDS - CONTINUED

Beginning with the year of bond issuance, the District has reported the annual 2004 bond capital projects related construction activity in the 2004 Bond Projects Capital Projects Fund. The project for which the \$8,500,000 2004 School Building and Site General Obligation Bonds dated July 29, 2004 were issued was considered complete on June 30, 2006 and the cumulative expenditures recognized for the construction period were \$8,289,523 as of that date.

NOTE M: SHORT-TERM NOTES

On August 19, 2005, the School issued a short-term State School Aid Anticipation Note in the amount of \$800,000 for the purpose of funding operating expenditures until the 2005 State Aid payments resumed. This short-term note, which had a net outstanding balance of \$820,237 (principal and accrued interest expense payable) at June 30, 2006, is reported in the General Fund under the caption short-term notes payable and the applicable accrued interest under the caption accrued liabilities. The outstanding balance was scheduled to be paid August 18, 2006.

NOTE N: SUBSEQUENT EVENT

On August 18, 2006, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of \$1,200,000 was for the purpose of funding operating expenditures until the fiscal year 2007 State Aid payments resume. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

NOTE O: CONTRACT COMMITMENTS

The District has entered into various contracts related to the acquisition, construction, and remodeling of various school building projects that were not completed at June 30, 2006. The total contractual commitments outstanding at June 30, 2006 totaled \$1,559,938. The District's remaining bond proceeds (i.e., fund balance) along with future anticipated investment earnings are expected to be sufficient to cover these commitments.

NOTE P: RESTRICTED NET ASSETS

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2006:

Governmental activities	
Restricted for sinking fund activities	\$ 92,724
Restricted for bond projects	<u>1,602,751</u>
	<u>\$ 1,695,475</u>

Webberville Community Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE Q: PRIOR PERIOD ADJUSTMENT

The following prior period adjustment was made during the year, which was the result of the correction of an accounting error. This adjustment was reported as a change to beginning net assets. The effect on operations and other affected balances for the current and prior year are as follows:

	<u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>Description</u>
Governmental activities			
Capital assets, net	\$ -	\$ 862,478	Correct understated
Change in net assets	-	862,478	capital assets, net
Net deficit - beginning	862,478	-	

REQUIRED SUPPLEMENTARY INFORMATION

Webberville Community Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 692,756	\$ 701,736	\$ 704,949	\$ 3,213
State sources	3,997,617	3,956,710	3,966,935	10,225
Federal sources	133,804	131,796	130,074	(1,722)
OTHER FINANCING SOURCES				
Other transactions	-	100,000	100,586	586
County special education allocation	256,248	276,729	300,386	23,657
TOTAL REVENUES AND OTHER FINANCING SOURCES	5,080,425	5,166,971	5,202,930	35,959
EXPENDITURES				
Current				
Instruction	2,944,238	2,965,521	2,939,338	26,183
Supporting services				
Pupil	376,020	425,140	406,892	18,248
Administration	769,231	850,900	863,941	(13,041)
Operation and maintenance	584,030	615,597	630,999	(15,402)
Pupil transportation	129,995	138,932	130,906	8,026
Total supporting services	1,859,276	2,030,569	2,032,738	(2,169)
Community services	30,257	53,851	53,200	651
OTHER FINANCING USES				
Payments to other districts	60,368	57,368	55,901	1,467
Transfers out	140,000	179,258	188,528	(9,270)
TOTAL EXPENDITURES AND OTHER FINANCING USES	5,034,139	5,286,567	5,269,705	16,862
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	46,286	(119,596)	(66,775)	52,821
Fund balance, beginning of year	169,019	169,019	169,019	-0-
Fund balance, end of year	\$ 215,305	\$ 49,423	\$ 102,244	\$ 52,821

OTHER SUPPLEMENTARY INFORMATION

Webberville Community Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue Funds		Debt
	Food		1998
	Service	Athletics	Debt
ASSETS			
Cash and cash equivalents	\$ 22,325	\$ 11,955	\$ 4,617
Receivables	192	-	-
Inventories	4,717	-	-
Due from other governmental units	1,290	-	-
Due from other funds	625	-	-
Prepays	1,339	-	-
TOTAL ASSETS	<u>\$ 30,488</u>	<u>\$ 11,955</u>	<u>\$ 4,617</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 29,315	\$ -	\$ -
Accrued liabilities	-	3,481	-
Due to other funds	-	3,901	-
Deferred revenue	540	2,295	-
TOTAL LIABILITIES	29,855	9,677	-0-
FUND BALANCES			
Reserved for			
Inventories and prepaids	633	-	-
Debt service	-	-	4,617
Unreserved			
Undesignated, reported in			
Special revenue funds	-	2,278	-
Capital projects funds	-	-	-
TOTAL FUND BALANCES	<u>633</u>	<u>2,278</u>	<u>4,617</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 30,488</u>	<u>\$ 11,955</u>	<u>\$ 4,617</u>

Service Funds			
2002 Debt	2003 Debt	2004 Debt	Durant Debt
\$ 33,196	\$ 51,132	\$ 14,059	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 33,196</u>	<u>\$ 51,132</u>	<u>\$ 14,059</u>	<u>\$ -0-</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
-	-	-	-
33,196	51,132	14,059	-
-	-	-	-
-	-	-	-
<u>33,196</u>	<u>51,132</u>	<u>14,059</u>	<u>-0-</u>
<u>\$ 33,196</u>	<u>\$ 51,132</u>	<u>\$ 14,059</u>	<u>\$ -0-</u>

Webberville Community Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

June 30, 2006

	Capital Project Funds	
	Land Development	Site and Facilities Sinking
ASSETS		
Cash and cash equivalents	\$ -	\$ 92,396
Receivables	-	-
Inventories	-	-
Due from other governmental units	-	-
Due from other funds	-	-
Prepays	-	1,443
TOTAL ASSETS	<u>\$ -0-</u>	<u>\$ 93,839</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ -	\$ 1,115
Accrued liabilities	-	-
Due to other funds	-	-
Deferred revenue	-	-
TOTAL LIABILITIES	-0-	1,115
FUND BALANCES		
Reserved for		
Inventories and prepaids	-	1,443
Debt service	-	-
Unreserved		
Undesignated, reported in		
Special revenue funds	-	-
Capital projects funds	-	91,281
TOTAL FUND BALANCES	<u>-0-</u>	<u>92,724</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -0-</u>	<u>\$ 93,839</u>

2002 Bond Projects	Total Nonmajor Governmental Funds
\$ -	\$ 229,680
38,332	38,524
-	4,717
-	1,290
-	625
-	2,782
<u>\$ 38,332</u>	<u>\$ 277,618</u>
\$ -	\$ 30,430
-	3,481
38,332	42,233
-	2,835
<u>38,332</u>	<u>78,979</u>
-	2,076
-	103,004
-	2,278
-	91,281
<u>-0-</u>	<u>198,639</u>
<u>\$ 38,332</u>	<u>\$ 277,618</u>

Webberville Community Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

Year Ended June 30, 2006

	Special Revenue Funds		Debt
	Food		1998
	Service	Athletics	Debt
REVENUES			
Local sources	\$ 108,087	\$ 22,171	\$ 53,411
State sources	7,063	-	-
Federal sources	64,195	-	-
OTHER FINANCING SOURCES			
Transfers in	13,780	174,748	-
Loan proceeds	-	-	4,607
TOTAL REVENUES AND OTHER FINANCING SOURCES	193,125	196,919	58,018
EXPENDITURES			
Current			
Food service	192,950	-	-
Athletics	-	196,919	-
Capital outlay	-	-	-
Debt service			
Principal retirement	-	-	40,000
Interest, fiscal, and other charges	-	-	16,749
OTHER FINANCING USES			
Transfer out	-	-	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	192,950	196,919	56,749
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	175	-0-	1,269
Fund balances, beginning of year	458	2,278	3,348
Fund balances, end of year	\$ 633	\$ 2,278	\$ 4,617

Service Funds			
2002 Debt	2003 Debt	2004 Debt	Durant Debt
\$ 335,983	\$ 276,038	\$ 188,736	\$ -
-	-	-	5,621
-	-	-	-
-	-	-	-
135,509	-	227,129	-
471,492	276,038	415,865	5,621
-	-	-	-
-	-	-	-
-	-	-	-
135,000	235,000	80,000	3,875
353,171	39,050	371,367	1,746
-	-	-	-
488,171	274,050	451,367	5,621
(16,679)	1,988	(35,502)	-0-
49,875	49,144	49,561	-
\$ 33,196	\$ 51,132	\$ 14,059	\$ -0-

Webberville Community Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - CONTINUED

Year Ended June 30, 2006

	Capital Project Funds	
	Land Development	Site and Facilities Sinking
REVENUES		
Local sources	\$ -	\$ 110,513
State sources	-	-
Federal sources	-	-
OTHER FINANCING SOURCES		
Transfers in	-	358
Loan proceeds	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	-0-	110,871
EXPENDITURES		
Current		
Food service	-	-
Athletics	-	-
Capital outlay	-	1,190
Debt service		
Principal retirement	-	13,928
Interest, fiscal, and other charges	-	3,394
OTHER FINANCING USES		
Transfer out	358	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	358	18,512
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(358)	92,359
Fund balances, beginning of year	358	365
Fund balances, end of year	\$ -0-	\$ 92,724

<u>2002 Bond Projects</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 2,566	\$ 1,097,505
-	12,684
-	64,195
-	188,886
-	367,245
2,566	1,730,515
-	192,950
-	196,919
13,129	14,319
-	507,803
-	785,477
-	358
13,129	1,697,826
(10,563)	32,689
10,563	165,950
<u>\$ -0-</u>	<u>\$ 198,639</u>

OTHER FINANCIAL INFORMATION

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Webberville Community Schools
Webberville, Michigan

We have audited the accompanying balance sheet and statement of revenues, expenditures and changes in fund balance of the 2004 Bond Project Capital Projects Fund, which is the fund that reported the activity of the 2004 Bond activity of Webberville Community Schools as of and for the twenty-three (23) month, two (2) day period ended June 30, 2006. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements were prepared for the purpose of complying with the provisions of the Michigan Revised School Code (Public Act 451 of 1976, as amended), Part 17-Bonds and Notes, Section 380.1351 (a) as described in Note L. The presentation is not intended to be a presentation of the District's total revenues and expenditures.

In our opinion, the statements referred to above presents fairly, in all material respects, the financial position of the 2004 Bond Project Capital Projects Fund, which is the fund that reported the activity of the 2004 Bond activity of Webberville Community Schools as of and for the twenty-three (23) month, two (2) day period ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 24, 2006, on our consideration of Webberville Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 24, 2006

Webberville Community Schools

Capital Projects Fund

2004 Bond Projects

BALANCE SHEET

June 30, 2006

ASSETS

Cash and cash equivalents
Investments

\$ 7,329
949,065

TOTAL ASSETS

\$ 956,394

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable

\$ 448,372

FUND BALANCE

Unreserved - undesignated

508,022

TOTAL LIABILITIES AND FUND BALANCE

\$ 956,394

Webberville Community Schools

Capital Projects Fund

2004 Bond Projects

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE

For the 23 Month and 2 Day Period Ended June 30, 2006

REVENUES

LOCAL SOURCES

Interest	\$ 297,545
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OTHER FINANCING SOURCES

Bond proceeds	<u>8,500,000</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES	8,797,545
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EXPENDITURES

Capital outlay	8,158,788
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OTHER FINANCING USES

Bond issuance costs	<u>130,735</u>
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TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>8,289,523</u>
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EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	508,022
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Fund balance, beginning of period	<u>-</u>
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Fund balance, end of period	<u><u>\$ 508,022</u></u>
-----------------------------	--------------------------

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Webberville Community Schools
Webberville, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of Webberville Community Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Webberville Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Webberville Community Schools' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Webberville Community Schools in a separate letter dated August 24, 2006.

This report is intended solely for the information and use of the management and Board of Education of Webberville Community Schools and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 24, 2006

East Lansing ■ Rochester Hills ■ St. Johns

Principals

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MANAGEMENT LETTER

To the Board of Education
Webberville Community Schools
Webberville, Michigan

As you know, we have recently completed our audit of the records of Webberville Community Schools as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Budgets should be monitored and amended when necessary.

As noted in the financial statements, some of the budgeted activities of the District exceeded the amounts appropriated. The variances noted were in the General Fund. This issue was noted and reported in our prior year management letter comments.

The Michigan Public Act 621 of 1978, as amended, provides that the District adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated.

We suggest the District adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferable monthly. Appropriate budget amendments should be made as needed.

2. The District should review the segregation of duties within the Central office.

As noted during our consideration and assessment of fraud risk, we noted that the District may not have sufficient segregation of duties in the central office as it relates to funds coming in from athletics and food service activities. We noted that one individual is often responsible for assuring these funds are deposited at the bank but there are not any true controls over this process or reports going back to the depositors as proof that their funds made it the bank and were accounted for correctly. This issue was noted and reported in our prior year management letter comments.

We suggest the District evaluate these various areas of operation and consider additional internal controls. We also suggest that District management provide a greater review and supervision of employee functions and procedures.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated August 24, 2006.

This report is intended solely for the information and use of the Board of Education and administration of Webberville Community Schools, and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 24, 2006